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JAN 16 2007

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

INDIANA UTILITY

REGULATORY COMMISSION

IN THE MATTER OF THE PETITION OF TWIN )  
LAKES UTILITIES, INC. FOR AN INCREASE )  
IN ITS RATES AND CHARGES FOR WATER ) CAUSE NO. 43128  
AND WASTEWATER UTILITY SERVICE )

PETITIONER'S SUPPLEMENTAL DIRECT TESTIMONY AND EXHIBITS

On December 5, 2006, the petitioner, Twin Lakes Utilities, Inc. ("Twin Lakes") filed a Motion to make Pro Forma Adjustments to Rate Base Through December 31, 2006. Pursuant to the presiding officers' December 20, 2006 docket entry granting that motion, Twin Lakes now files the attached supplemental direct testimony and exhibits of its witness, Michael T. Dryjanski.

Respectfully submitted,

TWIN LAKES UTILITIES, INC.

By: Clayton C. Miller  
Its attorney

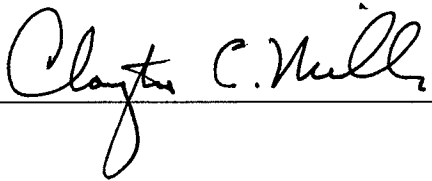
Clayton C. Miller, Att'y No. 17466-49  
BAKER & DANIELS, LLP  
300 N. Meridian St., Suite 2700  
Indianapolis, IN 46204  
Tel: 317.237.1444  
Fax: 317.237.1486  
email: ccmiller@bakerd.com

CERTIFICATE OF SERVICE

The undersigned certifies that on January 16, 2007, a copy of the petitioner's supplemental direct testimony and exhibits was served by hand delivery to the Indiana Office of Utility Consumer Counselor, Indiana Government Center North, 100 North senate Avenue, Room N-501, Indianapolis, IN 46204. Also on the same date, a copy of the same was deposited in the U.S. mail, first-class postage prepaid, addressed to:

J. Christopher Janak  
Nikki G. Shoultz  
Bose McKinney & Evans LLP  
2700 First Indiana Plaza  
135 N. Pennsylvania Street  
Indianapolis, IN 46204

Theodore A. Fitzgerald  
Brian E. Less  
Petry, Fitzgerald & Less  
107 N. Main Street  
P.O. Box 98  
Hebron, IN 46341-0098

  
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**SUPPLEMENTAL DIRECT TESTIMONY  
OF  
MICHAEL T. DRYJANSKI**

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Michael T. Dryjanski. My business address is 2335 Sanders Road, Northbrook, Illinois 60062.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I hold the position of Manager, Regulatory Accounting for Utilities, Inc. ("UI") and its subsidiaries. The Petitioner in this cause, Twin Lakes Utilities, Inc. ("TLUI" or "Company"), is a wholly owned subsidiary of UI.

Q. ARE YOU THE SAME MR. DRYJANSKI WHO PROVIDED DIRECT TESTIMONY ON BEHALF OF TLUI IN THIS CASE?

A. Yes.

Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL TESTIMONY?

A. On December 20, 2006, the presiding officers in this cause issued a docket entry in which they granted the Petitioner's motion extending the cut-off date for plant in service. That docket entry stated that the "rate base cut-off should reflect used and useful property in service by December 31, 2006. The test year shall continue to be June 30, 2006 as set forth in the November 21, 2006 Prehearing Conference

Order.” That same docket entry also afforded TLUI the opportunity to prefile supplemental evidence by January 15, 2007, which I note is a state and federal holiday. The purpose of my supplemental testimony and exhibits is to address the final costs and completion dates of used and useful property placed in service by December 31, 2006.

Q. ARE YOU SPONSORING ANY EXHIBITS OR SCHEDULES?

A. Yes. I am sponsoring updated rate base schedules which provide plant in service amounts as of December 31, 2006. This information is provided on Schedule C (Supplemental). The rate base for the water utility is shown on page 2 of Schedule C (Supplemental) and reflects adjustments for the utility's cash working capital needs and plant that is in service as of December 31, 2006. The updated amount of the water utility rate base is \$1,859,000 compared to the \$1,695,000 presented in my direct testimony. The rate base for the sewer utility is shown on page 3 of Schedule C (Supplemental) and reflects adjustments for the utility's cash working capital needs and plant that is in service as of December 31, 2006. The updated amount of the sewer utility rate base is \$5,531,000 compared to the \$5,417,000 presented in my direct testimony.

Q. IS ALL OF THE COMPANY'S PROPERTY AS REFLECTED IN THE  
UPDATED RATE BASE AMOUNTS PROPOSED ABOVE USED AND  
USEFUL FOR SERVICE TO THE PUBLIC?

A. Yes. All of the utility's property included in TLUI's updated request for rate relief was in service as of December 31, 2006, and continues to be used and useful for providing service to TLUI's customers.

Q. ARE YOU SPONSORING ANY ADDITIONAL EXHIBITS OR SCHEDULES?

A. Yes. I am also sponsoring an update to Exhibit CKM-5.

Q. WHAT IS EXHIBIT CKM-5?

A. Exhibit CKM-5 is an exhibit to TLUI witness Chris Montgomery's direct testimony in this cause and contains the company's pro forma capital projects through December 31, 2006 as anticipated at the time his direct testimony was prefiled on November 13, 2006. This exhibit included details of two projects that were in service as of June 30, 2006 but had not yet moved to the rate base accounts by the end of the test year, as well as those projects that were completed or expected to be completed between June 30, 2006 and December 31, 2006.

Q. WHAT INFORMATION DOES CKM-5 (SUPPLEMENTAL) PROVIDE?

A. Exhibit CKM-5 (Supplemental) provides updated cost and plant in service date information as of December 31, 2006. In addition, this exhibit has been updated to include additional capital projects, also placed in service as of December 31, 2006, that had not previously been addressed at the time the direct testimony was submitted.

Q. ARE ALL OF THE PETITIONER'S COSTS FOR ITS PLANT IN SERVICE AS OF DECEMBER 31, 2006 REPRESENTED IN SCHEDULE C – SUPPLEMENTAL AND EXHIBIT CKM-5 - SUPPLEMENTAL?

A. Not necessarily. The Petitioner's parent company has not officially closed its books for the calendar year 2006. Consequently, it is possible that a relatively small amount of additional costs could be recorded that affect the amount of rate base ultimately shown on TLUI's books once the parent company's books are closed some time next month. For purposes of this rate case, however, TLUI has agreed to rely on cost information that is available as of the date of this supplemental testimony.

Q. WHAT COSTS MIGHT NOT BE INCLUDED IN THIS RATE CASE?

A. It is my understanding that the allocation of assets and associated accumulated reserve from TLUI's affiliate, Water Service Corporation, to each of the Utilities, Inc. operating units, including TLUI, has not been completed. Therefore, TLUI's rate base is understated as of the time that this testimony is being submitted.

Q. HAVE YOU INCORPORATED ANY ADDITIONAL CHANGES OR CORRECTIONS IN YOUR DATA?

A. Yes. In response to a discovery question from the OUCC (OUCC DR 1-9), I corrected a formula on Schedule D which relates to test year revenues. This correction was made to properly reflect Service Revenues for Water that are

reported on Schedule B. As a result of updating the rate base accounts to December 31, 2006 data, as available, I also eliminated pro forma adjustment "d" on Schedule C (Supplemental). Pro forma adjustment "d" pertained to what the company has referred to as "General Ledger Additions", or an estimate for additions and retirements that are recorded directly to the plant accounts, i.e., small projects not captured or tracked via the work order system.

Q. DOES THIS CONCLUDE YOUR SUPPLEMENTAL TESTIMONY?

A. Yes it does.

**Twin Lakes Utilities, Inc.**  
**Combined Operations**  
**Rate Base and Rate of Return**  
**Test Year Ended June 30, 2006**  
**Rate Base Updated through December 31, 2006**

**Schedule C (Supplemental)**  
**Page 1 of 4**

	Per Books	Pro Forma Adjustments	As Adjusted	Proposed Increase	Effect of Proposed Increase
Net Operating Income	\$ 304,217	(35,232)	\$ 268,985	\$ 369,592	\$ 638,577
Gross Plant In Service	17,354,543	-	17,354,543	-	\$ 17,354,543
Accumulated Depreciation	(3,940,858)	261,311	[b] (3,679,547)	-	(3,679,547)
Net Plant In Service	13,413,685	261,311	13,674,996	-	13,674,996
Cash Working Capital	113,081	20,889	[c] 133,970	-	133,970
Contributions In Aid of Construction	(5,796,351)	-	(5,796,351)	-	(5,796,351)
Accumulated Deferred Income Taxes	(820,665)	-	(820,665)	-	(820,665)
Customer Deposits	(1,515)	-	(1,515)	-	(1,515)
Plant Acquisition Adjustment	-	-	-	-	-
Water Service Corporation	-	-	-	-	-
General Ledger Additions	-	-	[d] -	-	-
Capitalized Time Additions	-	-	[d] -	-	-
Excess Book Value	-	-	-	-	-
Pro Forma Plant	-	496,772	[e] 496,772	-	496,772
Pro Forma Plant Retirements	-	(297,797)	[e] (297,797)	-	(297,797)
Total Rate Base	\$ 6,908,235	481,175	\$ 7,389,410	\$ -	\$ 7,389,410
Return on Rate Base	4.40%		3.64%		8.64% [f]



**Twin Lakes Utilities, Inc.**  
**Water Operations**  
**Rate Base and Rate of Return**  
**Test Year Ended June 30, 2006**  
**Rate Base Updated through December 31, 2006**

**Schedule C (Supplemental)**  
**Page 2 of 4**

	Per Books	Pro Forma Adjustments	As Adjusted	Proposed Increase	Effect of Proposed Increase
Net Operating Income	\$ (97,269)	44,106	\$ (53,163)	\$ 213,762	\$ 160,599
Gross Plant In Service	5,322,743		5,322,743	-	5,322,743
Accumulated Depreciation	(1,173,237)	12,368	(1,160,869) [b]	-	(1,160,869)
Net Plant In Service	4,149,506	12,368	4,161,873	-	4,161,873
Cash Working Capital	58,486	10,638	69,124 [c]	-	69,124
Contributions In Aid of Construction	(2,061,761)	-	(2,061,761)	-	(2,061,761)
Accumulated Deferred Income Taxes	(430,948)	-	(430,948)	-	(430,948)
Customer Deposits	(765)	-	(765)	-	(765)
Plant Acquisition Adjustment	-	-	-	-	-
Water Service Corporation	-	-	-	-	-
General Ledger Additions	-	-	- [d]	-	-
Capitalized Time Additions	-	-	- [d]	-	-
Excess Book Value	-	-	-	-	-
Pro Forma Plant	-	147,858	147,858 [e]	-	147,858
Pro Forma Plant Retirements	-	(26,789)	(26,789) [e]	-	(26,789)
Total Rate Base	\$ 1,714,517	144,074	\$ 1,858,591	\$ -	\$ 1,858,591
Return on Rate Base	-5.67%		-2.86%		8.64% [f]

**Twin Lakes Utilities, Inc.**  
**Sewer Operations**  
**Rate Base and Rate of Return**  
**Test Year Ended June 30, 2006**  
**Rate Base Updated through December 31, 2006**

**Schedule C (Supplemental)**  
**Page 3 of 4**

	Per Books	Pro Forma Adjustments	As Adjusted	Proposed Increase	Effect of Proposed Increase
Net Operating Income	\$ 401,486	(79,338)	\$ 322,148	\$ 155,830	\$ 477,977
Gross Plant In Service	12,031,800		12,031,800	-	12,031,800
Accumulated Depreciation	(2,767,621)	248,943	(2,518,677) [b]	-	(2,518,677)
Net Plant In Service	9,264,179	248,943	9,513,123	-	9,513,123
Cash Working Capital	54,595	10,251	64,846 [c]	-	64,846
Contributions In Aid of Construction	(3,734,590)	-	(3,734,590)	-	(3,734,590)
Accumulated Deferred Income Taxes	(389,717)	-	(389,717)	-	(389,717)
Customer Deposits	(750)	-	(750)	-	(750)
Plant Acquisition Adjustment	-	-	-	-	-
Water Service Corporation	-	-	-	-	-
General Ledger Additions	-	-	- [d]	-	-
Capitalized Time Additions	-	-	- [d]	-	-
Excess Book Value	-	-	-	-	-
Pro Forma Plant	-	348,915	348,915 [e]	-	348,915
Pro Forma Plant Retirements	-	(271,008)	(271,008) [e]	-	(271,008)
Total Rate Base	\$ 5,193,717	337,101	\$ 5,530,819	\$ -	\$ 5,530,819
Return on Rate Base	7.73%		5.82%		8.64% [f]

- [b] Accumulated depreciation is adjusted to reflect the increase in gross plant in service, actual and estimated capitalized time, actual and estimated general ledger additions, actual and estimated pro forma plant, and pro forma plant retirements.
- [c] Cash working capital is calculated based on 1/8 of maintenance and general expenses.
- [d] A pro forma adjustment is made to account for actual and estimated capitalized time and actual and estimated general ledger additions to be included in this case. These additions are estimated through year-end 2006. Since the rate base has been adjusted to reflect actuals this adjustment is now zero.
- [e] Pro forma plant and pro forma plant retirements are adjusted for planned additional capital investments through the estimated audit date.
- [f] ~~The return on rate base shown above is provided solely as a matter of information and convenience for the Commission and is not intended to reflect a request for this specific return on rate base (or any return on equity). Applicant will make its request for a return on rate base (and return on equity) by way of evidence to be introduced at hearing.~~

Twin Lakes Utilities, Inc.  
Pro Forma Plant  
Test Year Ended June 30, 2006  
Updated through December 31, 2006

Exhibit CKM-5 (Supplemental)

Line No.	System	Project Name	Project Description	Project ID #	W/O #	Estimated Cost	Total Cost as of December 31, 2006	Water	Sewer	Actual In-Service Date	Completed Yes/No	% Complete	Notes
1	Twin Lakes Utilities, Inc. is drilling test wells to locate additional well(s) that are needed	New Test Well & Evaluation	Drill test wells to find an adequate water source	2495	060-0280-115-06-01	55,000	\$ 59,512	\$ 59,512		11/1/2006	Yes	100%	(a)
2	Twin Lakes Utilities, Inc. engineering for replacing the water treatment filter at water plant #1	Engineering to Replace North Aeration Filter at Water Plant #1	Engineering for the above project	4161	060-0280-115-06-02	38,000	\$ 35,719	\$ 35,719		12/22/2006	Yes	100%	(a)
3		WaterQuality & Security Monitoring	Install two Hach CL17 chlorine analyzers (one at each WTP) and two 1720 E turbidimeters (one at each WTP)	9156	060-0280-115-06-03	31,192	\$ 9,257		\$ 9,257	12/9/2006	Yes	100%	(c)
4		Install 12 Hydrants	Install 12 Mueller hydrants on Kingsway	7027	060-0280-115-06-04	67,944	\$ 30,940	\$ 30,940		12/29/2006	Yes	100%	(c)
5		Media Replacement for Water Plant #2 Filters	Replace old media in the North & South Iron Removal Filters at WTP #2	7026	060-0280-115-06-05	36,113	\$ 43,403		\$ 43,403	12/29/2006	Yes	100%	(c)
6		Replace 200' of Sewer Main	Replace 200' of 8" Transite Sewer Main plus restoration (Note: carry over costs from prior year)	2757	060-0280-116-05-01		\$ 142		\$ 142	12/13/2005	Yes	100%	(c)
7	Twin Lakes Utilities, Inc. repair to manholes in the sewer collection system	Rehab 64 manholes	Rehabilitate and seal manholes that are allowing inflow and infiltration	4163	060-0280-116-06-03	22,548	\$ 16,300		\$ 16,300	12/8/2006	Yes	100%	(a)
8	Twin Lakes Utilities, Inc. has replaced the errant effluent meter at the sewer plant.	WWTP Effluent Meter Replacement	Replace the current meter, which is believed to be inaccurate by up to 30%	2507	060-0280-116-06-01	43,035	\$ 46,799		\$ 46,799	9/1/2006	Yes	100%	(a)
9	Twin Lakes Utilities, Inc. engineering for the 1100' sewer main replacement on Kingsway Drive	Engineering for replacing 1100' of sewer main	Engineering for the above project	4168	060-0280-116-06-02	29,937	\$ 25,844		\$ 25,844	10/1/2006	Yes	100%	(a)
10	Twin Lakes Utilities, Inc. replacement of 1100 lineal foot of sewer main on Kingsway Drive	Replace 1100' of Sewer Main	Replace dilapidated sewer main that is allowing inflow and infiltration into the sanitary sewer system	3395	060-0280-116-06-04	81,150	\$ 68,432		\$ 68,432	11/30/2006	Yes	100%	(a) (d)
11	Twin Lakes Utilities, Inc. sewer collection system	Sewer Main repairs to achieve Inflow and Infiltration reduction.	A study of the system will be completed. Based upon that study, repairs will be made to the system.	4167	060-0280-116-06-05	118,895	\$ 123,594		\$ 123,594	12/15/2006	Yes	100%	(a)
12			Rehab Well #6	3649	060-0280-115-05-01	21,686	\$ 21,686	\$ 21,686		1/28/2006	Yes	100%	(a), (b)
13			Remove UST from WWTP	3713	060-0280-116-05-02	15,144	\$ 15,144		\$ 15,144	2/1/2006	Yes	100%	(a), (b)
14	Twin Lakes Utilities, Inc. has installed a water hydrant at our sewer plant. This will provide a safe and effective way to clean basins in the sewer plant	Install Hydrant at WWTP	Hydrant will be used to aid in cleaning the 'contact zone' at the WWTP.	3515	Note: Included in Acct. 3804005 GL Additions	16,500	\$ 16,292		\$ 16,292	11/1/2006	Yes	100%	(a) (e)
15	Twin Lakes Utilities, Inc. has replaced/installed valves at the sewer plant.	Install 6 new valves at the WWTP	These valves would allow us to redirect flow within the WWTP.	3900	Note: Included in Acct. 3804005 GL Additions	21,000	\$ 21,057		\$ 21,057	10/1/2006	Yes	100%	(a) (e)
16													

Exhibit CKM-5 (Supplemental)

**Notes:**

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